Annual Report 2005

Ferreyros

More Service

More Value

More Challenges

+ More Service

A vocation to serve clients with innovation, continually improving processes and high standards of quality +

+ More Value

Effective and integrated solutions and higher client satisfaction, to give the product a differentiating value +

+ More Challenges

Constant improvement in order to achieve higher goals in search of excellence and world class recognition +

More Service
More Value
More Challenges

Executive Summary
of the Board of Directors

+ General Information

The year 2005 was characterized for the Company by an active business performance, careful financial management and considerable efforts to continue to improve its operating structure as well as its internal processes aimed at improving the service offered to its customers +

Sales exceeded the S/. 1 billion, equivalent to US$ 303 million, registering a growth of 8% compared to the budgeted figure and of 20.5% in relation to the figures registered in 2004 + This figure, added to the sales of ORVISA, its affiliate in the jungle area, rendered the Company a total sales turnover equivalent to US$ 317 million, a record in its history, comparable only to that obtained in 1998 + If the sales of the affiliate companies are consolidated, the Company's total sales turnover amounted to approximately US$ 337 million +

For the fourth consecutive year, the Company improved its results + Thus, the net profit achieved for the period was S/. 30.1 million, as compared to S/. 27.5 million in the year 2004 and S/. 20.3 million in 2003 +

It must be pointed out that contrary to previous years, this year's results were considerably affected by the loss in the exchange rate, which reduced the profit earned prior to this deduction + This improved result was achieved thanks to the aforementioned increase in sales, better sales profit and a reduction in operating costs, which have translated into 14.9% of the sale +

The market trend was characterized by a constant demand from corporate mining customers and by increasing activity in the construction sector in which earthmoving works showed signs of recovery + The other sectors wherein the Company participates also showed good levels of activity + In general, the economic environment produced by a growing economy such as that seen in Peru in 2005, opens up important business opportunities for a company like ours that has a clear leading position + While it is true that this situation generates opportunities for both existing and new competition, the Company has maintained and in some cases increased the high market shares it holds in almost all the sectors in which it participates +

High mineral prices continued to be an important factor in encouraging mining companies to adopt equipment renewal programs, which, for their part, have increased their requirement levels for the provision of maintenance and repair services + As a result of these improvements, the service life of components repaired by the Company has been extended, thereby increasing mining operation efficiency and, therefore, the customer's satisfaction; however it has reduced the volume of added demand for spares and services +

In general, it can be said that the mining industry, both open-pit and underground, was, once again, the most important economic sector for the Company, not only because of its demand for goods and services but also because it is the indirect cause of sales to an important group of customers in the construction sector, which are currently supplying services to the mining industry +

The startup of new mining operations with the consequent opening of access roads, as well as the development of a few road building projects gave rise to a large movement of new and used machinery in the construction sector, an activity which, once again, evidenced the commercial leadership of the Caterpillar trademark and of the Company + The foregoing facts should allow the Company to successfully face its competitors in the transoceanic road projects, which are currently in their preliminary stage +

Varying activity was observed in the other sectors in which the Company operates + The fishing industry achieved high catch levels, which, together with changes in different companies in the sector, helped to improve its financial situation, and thereby, the fleet upgrading process + Exportagriculture , ever more distant from traditional agriculture, displayed much dynamism accompanied by a growing demand for machinery and equipment + Furthermore, the energy sector continued to grow, particularly in areas where the large mining and hydrocarbon projects are located +

In general, it may be observed that even in the absence of major projects, the Company is able to achieve adequate sales levels, if it maintains customer fidelization in the purchase of spare parts and services as well as in sales of individual machinery +

Within this context, the strategy implemented by the Company during the fiscal period, which was initially aimed at increasing its efficiency levels to provide a better service to its customers, is better understood + The Company is committed to emphasizing the "value" concept of its supply, which ultimately implies reaching levels of excellence in meeting the customer's sale and post-sale needs + To this effect, it has continued to improve its technical structure, placing emphasis on its organizational structure to direct its entire performance towards the markets and the customers + Simultaneously, the Company continued with its ongoing improvement process, mainly using the Six Sigma methodology +

+ The Fullfilment of the Objectives of 2005

Upon the approval of the Corporate Annual Business Plan, at the beginning of the fiscal year, the Company established a number of strategic objectives, such as increasing profitability levels for the shareholder, expressing them in terms of the creation of value [EVA – Economic Value Added] surpassing the previous fiscal year's sales figures, and conveying to its customers, the commitment to meeting their growing needs, by providing them with comprehensive solutions +

The Company's actions were aimed at accomplishing these objectives, having adopted the use of modern management tools to facilitate reaching them +

The initial concern has been to increase profitability levels, for which purpose, the EVA financial methodology was put into practice, thereby allowing the Company to determine the extent to which the profit produced by each business unit is greater than the capital cost including the shareholder's cost, through periodic evaluations of the operating profit and of resources + This has enabled the Company to reinforce the notion of profitability on all its levels, so that each business unit is able to make its own decisions, aimed at increasing returns on the capital invested + As mentioned previously, the fiscal year ended with a level of profits after taxes, 9% higher than the previous year + And if generation of economic value added is considered, it accounted for S/. 25 million in the year, excluding non-recurring expenses +

The second element of the objective was to increase sales, by ensuring customer satisfaction + At the end of the fiscal year, sales rose by 20.5% as compared to the previous year, thereby maintaining and in some cases increasing market leadership + To guarantee the continuity of this effort, the CRM [Customer Relationship Management] method was adopted + This method allows the Company to manage these relationships both comprehensively and efficiently, which should yield higher sales +

The third objective of achieving that the Company be viewed by its customers as a supplier of comprehensive solutions for their projects is a long-term goal and its fulfillment goes beyond one fiscal year + However, it can be mentioned that serious progress has been made in the adoption of a set of measures ranging from improving internal procedures to incurring in non-traditional operations in which the Company must assume greater risks to offer the services that its customers may require + On the other hand, work continues in the process of changing the staff's attitude towards the customer and in strengthening motivational programs +

These management tools are applied in addition to the overall use in the Company of the Six Sigma methodology, for the continuous improvement of processes + The net financial profit of the 11 projects evaluated during the fiscal year bordered US$0.8 million during the fiscal year and US$1.8 million accumulated from the year 2004 + There are 62 projects; this number includes those that have been finalized, those that are being implemented and the new ones +

+ Business Performance

The mining, construction, energy and fishing markets

In the 2005 fiscal year, these markets were essentially serviced by the Caterpillar line of products, which represented a very high percentage of total sales, including revenues obtained from the sale of spare parts and services + As mentioned previously, the CAT line of products has continued to yield high market share percentages + According to customs statistics, the referred share accounted for 65% in units and 69% in import values, for the total amount of different types of machinery in the earthmoving machine category +

In the mining sector, the Company continued to enjoy the trust and loyalty of its customers + The soon to begin open-cut gold exploitation operations gave rise to the sale of 28 units to an important customer who will provide earthmoving services to the mining company +

In addition, the low profile CAT loaders for underground mining were particularly successful + This line was launched on the Peruvian market a few years ago and has managed to position itself as one of the leading trademarks in this market, with a share of 38% in the year 2005 +

In addition to these mining machines, the Company made considerable sales of Atlas Copco Drilling Solutions drills [formerly Ingersoll Rand] obtaining 100% of the orders issued in 2005, with which the total share of this equipment operating in the country, accounts for more than 80% + Our acknowledgement goes to Atlas Copco for having entrusted us with the distribution of this equipment, despite being a loyal competitor in other lines +

On the other hand, the Company faced significant changes in the operating methods of its mining customers + Several of them decided to postpone the repair of components of their machines and trucks, extending the service life of the units in operation based on the use of condition monitoring systems that in many cases were provided by FERREYROS + However, this postponement, benefiting the mining companies, lead to decreased invoicing by the Component Repair Center [CRC] during the first half of the year, which was partly recovered to reach 87% of the budgeted invoicing +

Another change adopted by some of the mining customers was to directly assume the maintenance of their fleet, thereby reducing the risks that FERREYROS was facing in this aspect of the business and the high costs incurred to hire the local and international staff required to implement this operation + Instead, agreements have been reached to carry out repairs, supply spares and components and carry out the respective logistics +

Furthermore, for Ferreyros to achieve the objective of being acknowledged as a world class supplier of services to the mining industry, the mining division has strived to reduce operating costs, increase the efficiency of its processes and satisfy their customers + As a result of the increase in its invoicing for services, the Company has also obtained a notable improvement in its turnover +

In the construction market, an increasing demand for new and used machinery was registered, in many cases for large scale mining customers + However, the announcement of the execution of large-scale road projects as well as the onset of a few preliminary works has produced an important movement in the demand for machinery and equipment +

A line that maintained its good performance was the used machinery line + Even though sales decreased slightly compared to the previous year since a very large sale was not secured, the market trend is growing particularly due to the demand of the small and medium contractors who need machinery for medium-term contracts +

In order to secure greater customer fidelization, a policy of strategic commercial alliances has been developed, which has lead to the adoption of six agreements during its brief existence +

In the energy and fishing sectors, the Company maintained an important presence, registering a market share, for Caterpillar engines, of almost 50% + In the industrial fishing business, an important part of the vessel-upgrading market was attracted and an active presence was maintained in the supply of engines for artisanal fishing vessels +

On the other hand, the construction works and delivery of a thermal plant of 5 to 8 megawatts in a mining deposit were concluded and the Company continued to service other mining and petroleum markets + In some cases, this service was provided by medium- term lease of portable power generation units that can be transported on their own platforms and interconnected to the public network or with the user's private network at low installation costs +

The sale of Caterpillar spares and services has continued to grow in volume and improve in efficiency + As a consequence of the size of the population of machinery and equipment sold by FERREYROS, there is a rising demand for spares that has been met by the Company, thereby revealing a healthy business trend + Nonetheless, in order to cover the market better, trade with mining customers and trade with non-mining customers has been separated +

In the latter case, where there is a potential to increase the Company's share, the sales of spares has grown by 18.5% as compared to 2004 + In order to enhance the Company's service to these non-mining customers, 191 Customer Support Agreements [CSA] were signed during the year to improve the availability of equipment, reduce maintenance costs by decreasing emergency situations and to increase customer fidelization +

On the other hand, with the support of Six Sigma and external counseling, the processes in the Component Distribution Center continued to be improved, in order to reduce cargo handling times + Stock rotation dropped slightly as compared to 2004, due to the increase in the number of parts to service the mining operations and the growth in the other markets, in spite of this it ranges within the best standards of similar companies in the region + The other relevant indicator, measuring the percentage in which the customer is immediately served with spares, is one of the best in Latin America +

In the case of mining customers, the high volume reached in sale of spares, is largely explained by the repairs at the Component Repair Center [CRC] + A total of more than one thousand major components were repaired, including engines, transmissions, converters, etc +

In order to comply with the demands for quality in customer service, the Company continued its investment program to supply workshops with the necessary equipment, which, this year, included the construction of a new diesel oil-analysis lab and the purchase of modern equipment to increase both the speed and quality of readings + At the same time, the use of bar codes continued to be implemented to facilitate and expedite the management of spares at the Lima Distribution Center warehouse and in other locations, as well as to improve spare part inventory control + All this has enabled the Company to immediately serve 85.2% of the customers from said inventory, covering the remaining percentage of customers with emergency orders +

The Company's training programs have continued to grow, considering the challenge that customers' service demands represent and the need to add value to trade offers + The Service Pro Program aimed at developing the technical staff's career lines based on the skills they display in their work and on their individual studies, can be mentioned among others + Furthermore, the Supervisor Development Program, the Caterpillar Certification Program of Technicians in Mining Equipment in Tucson, United States, as well as the Training Support Program for other CAT technicians from Latin America in Miami and the traditional courses for customers and machine operators are being executed +

On the other hand and in order to meet its customers' present and future requirements and to prepare the Company for growth over the next few years, the Think Big Program continued to be developed in collaboration with TECSUP and Caterpillar. In this project, TECSUP provides specialized professional training to young mechanics who have been granted scholarships by the Company and who after two years of studies join the workshops + In the year 2005, 23 technicians graduating from the second class were awarded a degree and began working in the different workshops, such as the CRC and the workshops of certain branch offices with growing demands for services + The graduated technicians join the Company and continue their specializing through the Service Pro Program +

With the aim of improving the physical facilities for teaching courses to Company staff and its customers' staff, as well as to provide training at work and Service Pro certifications, a Technical Development Center has been built in a 500 square meter area, on land adjacent to the corporate head office, which includes classrooms, offices and a certifications workshop, which is fully equipped with Caterpillar machinery tools and main components +

The agricultural and automotive markets

In addition to the markets preferentially serviced with the Caterpillar line of products, FERREYROS has an active presence in the agricultural and automotive markets, representing other trademarks and brands +

The agricultural sector, particularly the non-traditional, registered an important growth in 2005 + Agricultural exports grew 24% and amounted to US$1.375 million and its structure evidences an increasing diversification, both in products and in geographical location +

During the fiscal year, the Company sold a considerable number of Massey Ferguson agricultural tractors, exceeding the figure obtained in 2004 by 24% and obtaining a market share of 56%, thereby ratifying the traditional leadership that this trademark holds in the Peruvian market + It showed a similar activity in the trade of the other lines it represents, such as the Zaccaria rice mill line, achieving a market share of 86% in two years +

With regard to the automotive business, the sales of the trucks sold by the Company [Category B5 with a gross weight of more than 16 tons] registered an important growth of 87.3% compared to the previous year, due to the gradual renewal of transportation fleets and individual carriers, as well as to the demand for dump trucks for mining and construction + The Kenworth brand, represented by the Company, was among those registering the biggest significant increase with 294% as compared to the year 2004 +

In order to expand the portfolio of products in this category, the Company signed a contract to represent in Peru the renowned trademark IVECO, which is part of the FIAT Group + IVECO has a wide range of commercial vehicles [light, medium and heavy] as well as passenger vehicles + During the second half of 2005 and as part of a market penetration strategy for the brand, the Company's business efforts were aimed at launching the dump truck +

Sales of spares and service for the automotive industry rose by 21%, as compared to the previous year, thereby expanding the market coverage with European brand trucks +

The Branch Offices

The Company's branch offices located in 13 different cities in Peru continued to significantly support the sales of the different lines in almost all of the country, thereby guaranteeing a coverage that few companies in this line of business can boast + By providing spares and service to the customers, they become key factors in guaranteeing the operational capacity of the equipment sold by FERREYROS nationwide +

Sales through the branch offices rose by 30% as compared to the previous year, mainly boosted by increased activity in the primary sectors +

Although machinery, spares and service for the large-scale mining industry are not sold through the branch offices, the business ventures related to these operations generated a considerable amount of activity for the offices of Cajamarca, Arequipa, Trujillo and Huaraz, as did the underground mining industry for Huancayo, the petroleum industry for Piura and the growth of the agricultural export sector for Ica +

+ Financial Management

The financial management was aimed at minimizing the cost of the resources required by the Company to achieve an efficient commercial operation + To that effect, the Company had to face a rise in interest rates on the global market, they almost quadrupled over the last two years, while the Company was unable to significantly reduce its financial requirements due to the growth of its sales and the need to increase its stocks given the long delays in the supply of machinery and spares +

The financial liabilities, in other words those that accrue interest, grew by US$2.8 million approximately, a figure that includes the payment of securitization bonds, which had not been recorded in the Company's liabilities + Upon deducting these, it could be said that there was a net reduction of US$1 million in the liabilities related to this operation + The financial expenses increased by 9% compared to the previous year, mainly due to the rising trend of interest rates +

In order to reduce the impact of this trend, a strategy was developed aimed at modifying the structure of the funding sources used and to gradually replace the operations at a variable rate with operations in which the rate was fixed considering the prospect that the rise would continue over the next few months +

In the first case, the Company sought to replace the funding sources abroad with operations on the capital market and by credits from local banks at more competitive interest rates +

With respect to the capital market, two issues of corporate bonds were placed for US$15 and US$10 million, for 3 and 5-year terms at interest rates of 5.81% and 6.11% respectively, that is, much below the forecast, despite the market's upward trend + On both occasions, the acceptance of FERREYROS corporate bonds among the investors was observed, particularly by individuals and mutual funds +

At the close of the fiscal year, the debt ratio increased from 1.52 to 1.67 as compared to the year 2004, mainly due to the increase in non-financial debt + However, the Company objective of keeping it below two is being fulfilled +

On the other hand, the current ratio continued to improve, rising from 1.48% in December 2004 to 1.73% in December 2005, as a result of the partial replacement of the short-term debt by medium-term debt, among other reasons + Thus, the short-term liabilities which were 52% of the total financial liabilities, dropped to 45% +

Within the policy to reduce financial costs, an increase in the payment term to 60 days was agreed with the suppliers, without producing a negative effect on its cash flow, since the Company reached an agreement with an important bank to carry out the factoring of their invoices payable by FERREYROS +

Finally, with regard to sales financing, the Company was able to reduce its share in three-year operations, by financing only 10% of the sales + This was possible thanks to the active participation of Caterpillar Financial, which granted important credits to FERREYROS customers and for the leasing operations granted by the local banks to customers +

The default rate of the current debt portfolio of more than 30 days was 1.09% against the 2.28% obtained in 2004 and the provision of accounts receivable was reduced from US $4.2 million in 2004 to 1.9 million in 2005 +

The strengthening of the Company's financial structure and the maintenance of its profitability levels allowed it to defend the shares of stock value on the Stock Exchange, affected by the downward trend of the Peruvian stock exchange in the last weeks of the year, having closed the fiscal year with a value of S/ 1.54 per share +

+ Affiliate Companies

During the course of the fiscal year, the majority of the affiliate companies had a positive performance, supplementing the operations of FERREYROS and taking advantage of the synergies produced + The six affiliates reached total sales of S/.182.2 million and contributed to the Company's profits with a sum of S/. 10.2 million +

Orvisa reached a sales volume of S/. 65 million, 23% more than the previous year, serving the petroleum, energy, forestry, agricultural and river transportation sectors in the Peruvian Amazon region + The growing demand for power generation units in the petroleum and energy sector, marine engines in the river transportation sector, as well as for machinery, tools and equipment for the exploitation and transformation of wood, has contributed towards achieving these figures + In order to provide services for the reconstruction and maintenance of power generation sets and production plants, FERREYROS established the company Orvisa Servicios Técnicos SAC a year ago, which is currently in the process of consolidation with activities of the petroleum sector +

Motorindustria reached a sales level of S/. 24.5 million, thereby implying a decrease of 11% as compared with the previous fiscal year, mainly due to a drop in the demand for the repair of components at the CRC, as a result of the extended service life of such components in the mining projects + However, it registered a net profit of S/. 3.8 million [15.5% of net sales as compared to the 13% obtained in 2004] which reflects a growth of 4% with respect to the net profit obtained during the previous year + In the year 2006, the operations of this company will be incorporated to FERREYROS, through a spinning-up process +

Unimaq S.A. increased its sales by 56% compared to the previous year, representing a figure of US$ 16.5 million and a sustained growth in almost all of the 25 lines of light equipment, products and inputs required to attend to the mining, construction, fishing and industrial markets + As a result of the rise in sales, the company's net profit rose by 50% as compared to that obtained in the year 2004 +

Depositos Efe S.A. totaled a sales turnover of S/. 2 million, a figure 16.9% higher than that registered in the year 2004 + This growth was largely achieved through the alliances developed with important customers operating in the logistical service market, which enabled the Company to obtain a 10% share in a highly competitive market such as customs bonded and public warehousing services + Net profits amounted to S/. 0.5 million, a figure 39% higher than those obtained during the previous year +

Fiansa generated revenues of S/. 27.03 million, with a loss of S/. 1.87 million as a result of the difference in the execution of one of the main works contracted + As of the second half of 2005, the Company began a reorganization process, aimed at projects of greater magnitude that will enable it to absorb the overheads with the objective of achieving profit levels in accordance with the market +

Domingo Rodas S.A. continued its recovery process from the year 2003 in which it faced the effects of a virus outbreak throughout the region, achieving, in 2005, a production of around 700 tons of shrimp for export, a figure similar to that obtained prior to the presence of the virus + Its sales grew in 35.3% as compared to the previous year, reaching a figure of S/.10.6 million + The AQUAMAR trademark under which it exports its product has managed to be recognized as a quality brand, mainly in the U.S. and Spanish markets + Despite the foregoing, the net profit was only S/. 0.3 million, a 25% decrease in relation to that obtained during the previous year, mainly due to the effects of variations in the exchange rate as well as a delay in harvesting an important lot of shrimp, which could only be exported in January 2006 +

+ Corporate Governance

Throughout its corporate life, the Company has based its performance on ethical principles, many of which today are part of the concept of corporate governance + Honoring the shareholders' rights, giving them equitable treatment, and clearly establishing the functions of the Board of Directors and of the Management as well as the transparent and timely presentation of market information are practices that have been assumed by the Company a long time ago + To this effect, it adhered to the Declaration of the Principles of Corporate Governance for Peruvian Companies, published by CONASEV – the Peruvian Securities and Exchange Commission in the year 2002 + Also, it actively participated in the preparation of this declaration through Procapitales +

In its Annual Report for 2004, the Company presented its evaluation on the degree of compliance with 26 principles, for the first time, indicating the basis for the score allocated in each case + In order to fully comply with all the principles, certain changes in the Bylaws related to the representation of shareholders on the Board to allow a broader delegation and related to the requirements to become a director to facilitate the appointment of independent directors were submitted to the consideration of the Shareholders' Meeting held in March 2005 + Furthermore, the Board of Directors elected in said meeting, reviewed the structure of the existing Board of Directors committees and decided to create a new committee, thereby constituting the General Committees for Auditing, Organization Development and Human Resources + Recently the first committee's name was changed and will now be called the General Board and the Corporate Governance Entity to assume the functions of supervising the fulfillment of these regulations +

Throughout the year, the Company has not only endeavor to maintain a high level of compliance with the principles but has also contributed to spreading them on the market, by participating in different events, providing its testimony and sharing its experiences to encourage other companies to continue working to apply the principles +

In an annex to this Annual Report, for the second consecutive year FERREYROS has self assessed its degree of compliance with the principles and add the required supporting evidence according to the new CONASEV provisions +

+ Social Responsibility

Aware of its obligations in the area of social responsibility, the Company has made every effort during the fiscal year to comply with its different groups of interest, including employees, shareholders, suppliers and the community in general, as well as with its environmental obligations + Its relation with the groups of interest is harmonious and it is believed that it contributes to the generation of value for them +

In terms of its employees, the Company guarantees a safe, healthy, neat, clean and environmentally harmless working environment + To do so, it has a safety and environmental policy and trains its staff in knowing the policy and applying it properly, so they all accept it and undertake to meet the responsibility for their own safety and that of the persons on their work team + To engage in safe work becomes something as important as conducting the productive tasks of the business, for which demanding safety goals and objectives are fixed + The security program is managed based on the creation of committees that allow the extensive participation of the employees as well as in internal safety regulations, an industrial safety, occupational health and environmental control manual and a policies and procedures manual +

In addition to looking after its staff , the Company seeks to maximize its level of satisfaction, by encouraging, promoting and facilitating its development through the creation and startup of Human Resource Systems aimed at improving the performance of the employees in their present duties, at preparing them to assume greater responsibilities in the future, at establishing methods to measure their performance levels, at generating the most suitable communication channels to take on commitments for their improvement and to promote their education +

Insofar as the community is concerned, the Company has continued to implement the Ferreyros Association Programs, aimed at working with young undergraduates about to conclude their studies, who are offered the opportunity of reflecting and forming their own opinions on the decisive aspects in their future as citizens and professionals + The Association concentrates its activities in the implementation of workshops, in which the students from different academic areas are interactively encouraged to consider topics ranging from values up to employability, including citizen responsibility, solidarity, teamwork, participation, among others + The number of workshops has increased from year to year, with the support of many universities + During the year 2005, 58 workshops were implemented in 25 universities in 10 cities of the country, from Iquitos to Puno and from Piura to Tacna, with an attendance of 1794 undergraduates + A total of 78% of the workshops are held in provinces and 78% of the participants are from the provinces, where the need for this type of exercise is much greater than in Lima +

In addition to this direct work with undergraduates, the Company continued to collaborate with the Peruvian Institute of Business Administration [IPAE] in the Annual Student Conference held by that institution. + FERREYROS' participation in this event is not limited to cash contributions, it has been a member, all these years, of the Organizing Committee of the Conference and through the Association has been in charge of conducting the 20 working groups that analyze and discuss the lectures of the exhibitors to reach conclusions and make recommendations +

Finally, the Company has been participating with the Los Andes Association, related to the Yanacocha mining company, in a program for Young Entrepreneurs in a group of schools in Cajamarca + FERREYROS finances 25% of said project aimed at encouraging entrepreneurial concepts in the youth to improve the situation of their families in the labor market +

+ Perspectives for 2006

Despite being a year of elections, the national economy should grow in the year 2006, largely boosted by the good levels reached during the previous year +

The existence of important mining, hydrocarbon and road projects, to be implemented during the year, as well as the foreseeable signing of the Free Trade Agreement with the United States make it reasonable to expect a good performance of the Company, which with a consolidated financial structure and an articulated organization, is increasing the efficiency of its processes and further approaching its clientele + Its leading position must therefore be enhanced +

As the Company forges ahead, it encounters new and renewed challenges + The search for excellence in meeting the needs of its customers in sales and post sales, emphasizing the concept of the value of the supplies is the most important objective + In addition, the Company must continue to strive to attain its acceptance as a world class dealer for the mining industry + Non-mining customers should consider it the supplier of comprehensive solutions, when machinery and equipment are required + Employees must fully identify with the Company and its objectives within the context of a harmonious and motivating organizational environment + The shareholders are entitled to receive a return on their investment in accordance with their expectations +

As it has been mentioned over and over every year, the Company has a history of achievements and success, in an environment in which the political and economic crises alternate with periods of stable growth + In the year 2006, the environment surrounding its operations will be no exception, but despite this, it shall be the scenario in which it shall continue to grow and prosper to the benefit of its shareholders and employees +

Upon concluding this introduction to the Annual Report of its first year, the Board of Directors wishes to thank the shareholders for their trust, acknowledge its customers for having honored the Company with their preference and express its appreciation to the suppliers and to its staff for their support during its management +

We are pleased to submit to the shareholders the details of the overall information and operations as well as the analysis and discussion of the financial statements, pursuant to the provisions of Resolution 141.98 EF/94.10, issued, to this effect, by the Peruvian Securities and Exchange Commission [CONASEV] for the presentation of Annual Reports + The Statement of Liability prescribed by these regulations is attached hereto +

Analysis and Discussion of Financial Statements

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(Free translation from the original in Spanish)

REPORT OF INDEPENDENT AUDITORS

February 17, 2006

To the Shareholders and Board of Directors
Ferreyros S.A.A.

We have audited the accompanying balance sheets of **Ferreyros S.A.A.** as of December 31, 2005 and 2004 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Peru. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, prepared for the purposes indicated in the next paragraph, present fairly, in all material respects, the financial position of **Ferreyros S.A.A.** as of December 31, 2005 and 2004, the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in Peru.

The separate financial statements of **Ferreyros S.A.A.** have been prepared pursuant to requirements in force in Peru for the presentation of reporting information and not on a consolidated basis. These financial statements should be read together with the consolidated financial statements of **Ferreyros S.A.A. and subsidiaries**, presented separately, and on which we issued, as dated above, an unqualified opinion.

Dongo-Soria Gaveglio y Asoc.

Countersigned by

--(partner)
Francisco Dongo-Soria
Peruvian Public Accountant
Registration No.4850

Partida No. 11028527
Registro de Personas Jurídicas de Lima
Capital pagado S/. 1,035,000.00

+ Balance Sheet [Notes 1, 2 and 3]

Assets

	As of December 31, 2005	2004
	S/. 000	S/. 000
Current Assets		
Cash and banks (Note 4)	11,469	24,041
Trade accounts receivable:		
Third parties (Note 5)	226,846	93,171
Affiliates (Note 6)	7,043	13,363
Other accounts receivable:		
Affiliates (Note 6)	6,996	2,544
Other (Note 7)	6,956	58,126
Inventories (Note 8)	253,255	204,088
Prepaid expenses	2,136	2,220
Total current assets	**514,701**	**397,553**
Long-term trade accounts receivable [Notes 5 and 26]	**34,788**	**28,665**
Deferred income tax and workers' profit sharing [Note 11]	**11,207**	**7,140**
Investments in securities [Note 9]	**95,347**	**93,598**
Property, plant and equipment [note 10]	**183,880**	**216,005**
Other assets	**445**	**744**
	840,368	**743,705**

The accompanying notes are part of the financial statements +

Liabilities and net stockholders' equity

	As of december 31, 2005	2004
	S/. 000	S/. 000
Current liabilities		
Bank overdrafts and loans [Note 12]	62,592	20,180
Trade accounts payable:		
Third parties [Note 13]	100,545	130,890
Affiliates [Note 6]	7,585	3,346
Other accounts payable:		
Taxes payable	12,425	4,205
Salaries payable	15,894	12,699
Affiliates [Note 6]	3,675	1,191
Other accounts payable	27,699	20,109
Current portion of long-term debt [Note 14]	81,686	74,057
Total current liabilities	**312,101**	**266,677**
Long-term debt [Note 14]	**207,690**	**179,888**
Deferred income	**5,669**	**3,980**
Net stockholders' equity [Note 15]		
Capital stock	266,178	251,550
Revaluation surplus	12,303	10,267
Legal reserve	6,284	3,528
Retained earnings	30,143	27,815
	314,908	**293,160**
Tax situation [Note 16]		
Contingencies and commitments [Note 17]		
	840,368	**743,705**

The accompanying notes are part of the financial statements +

+ Statement of Income [Notes 1, 2 and 6]

	For the year ended December 31, 2005	2004
	S/.000	S/.000
Net sales:		
Third parties	945,630	810,334
Affiliates	19,642	15,204
	965,272	**825,538**
Other operational revenues	3,437	1,273
	968,709	**826,811**
Cost of sales [Nota 18]:		
Third parties	[724,876]	[635,219]
Affiliates	[18,001]	[13,431]
	[742,877]	**[648,650]**
Administrative expenses [Note 19]	[63,116]	[60,556]
Selling expenses [Note 20]	[85,405]	[91,647]
	[891,398]	**[800,853]**
Operating income	**77,311**	**25,958**
Other income [expenses]:		
Financial income [Note 21]	23,496	19,686
Financial expenses [Note 22]	[30,727]	[28,011]
Result for exposure to inflation	-	5,904
Difference on exchange, net	[9,780]	11,999
Other, net [Note 23]	[11,460]	8,161
	[28,471]	**17,739**
Income before workers' profit sharing and income tax	48,840	43,697
Workers' profit sharing [Notes 11 y 16]	[4,063]	[3,493]
Income tax [Notes 11 y 16]	[14,635]	[12,655]
Net income of the year	**30,142**	**27,549**
Basic earnings per common share [Note 24]	**S/, 0,125**	**0,114**

The accompanying notes are part of the financial statements +

+ Statement of changes in stockholders' equity [Note 15]

for the years ended december 31, 2005 and 2004

	Capital stock	Revaluation surplus	Legal reserve	Retained earnings	Total
	S/.000	S/.000	S/.000	S/.000	S/.000
Balances at January 1, 2004	241,281	10,926	1,400	21,322	274,929
Dividend distribution	-	-	-	[9,318]	[9,318]
Capitalization of equity accounts	10,269	[659]	-	[9,610]	-
Transfer to Legal reserve	-	-	2,128	[2,128]	-
Net income of the year	-	-	-	27,549	27,549
Balances at December 31, 2004	251,550	10,267	3,528	27,815	293,160
Dividend distribution	-	-	-	[11,989]	[11,989]
Capitalization of equity accounts	14,628	[1,559]	-	[13,069]	-
Voluntary revaluation, net of tax effect	-	3,595	-	-	3,595
Transfer to Legal reserve	-	-	2,756	[2,756]	-
Net income of the year	-	-	-	30,142	30,142
Balances at December 31, 2005	**266,178**	**12,303**	**6,284**	**30,143**	**314,908**

The accompanying notes are part of the financial statements +

+ Statement of Cash Flows [Notes 2 y 27]

	For the year ended December 31, 2005	2004
	S/.000	S/.000
Operating activities		
Collections from customers	799,280	787,776
Other collections related to operating activities	34,304	36,207
Payments to suppliers	[830,235]	[708,361]
Payments of salaries and social benefits	[110,346]	[97,310]
Payments of taxes	[13,251]	[15,970]
Other payments related to operating activities	[139]	[1,036]
Net cash [applied to] provided by operating activities	**[120,387]**	**1,306**
Investing activities		
Sale of investments in securities	1,041	103
Sale of property, plant and equipment	14,186	2,078
Purchase of machinery and equipment	[4,560]	[9,333]
Purchase of investments in securities	-	[607]
Purchase and development of intangibles	-	[268]
Purchase and development of intangibles	1,584	1,785
Dividends received	4,886	21
Net cash provided by [applied to] investing activities	**17,137**	**[6,221]**
Financing activities		
Securitization of accounts receivable, net	52,856	32,628
Bank overdrafts and loans, net	42,412	[7,349]
Long-term debt, net	35,431	[736]
Interest on bank overdrafts, loans and long-term debt	[31,705]	[29,429]
Dividends paid	[11,989]	[9,131]
Other collections related to financing activities	3,673	-
Net cash provided by [applied to] financing activities	**90,678**	**[14,017]**
Net decrease in cash	[12,572]	[18,932]
Result for exposure to inflation	-	5,904
Balance of cash at beginning of the year	24,041	37,069
Balance of cash at end of the year	**11,469**	**24,041**

+ Statement of Cash Flows [Continued]

	For the year ended December 31, 2005	2004
	S/.000	S/.000
Reconciliation of net result to cash flows from operating activities		
Net income	**30,142**	**27,549**
Adjustments to reconcile net income to cash flows from operating activities:		
Provision for doubtful accounts	7,049	16,597
Recovery of provision for doubtful accounts	-	[185]
Provision for impairment of inventories	11,794	9,854
Recovery of provision for impairment of inventories	[6,624]	[8,776]
Provision for impairment of property	7,954	-
Provision for workers' bonuses	2,476	1,795
Provision for workers' vacations	117	2,441
Provision for fluctuations in value of investments in securities	-	2,433
Value of interest in investments in securities	[10,860]	[10,676]
Equity interest in securitization trust	-	[794]
Loss on sale of investments	-	38
Dividends in shares	-	[598]
Profit on sale of property, plant and equipment	[5,934]	[574]
Depreciation and amortization	31,476	32,097
Financial expenses	30,727	28,011
Directors' remunerations	2,508	2,247
Workers' profit sharing	5,159	3,772
Deferred income tax and workers' profit sharing	[5,205]	[1,768]
Result for exposure to inflation	-	[5,904]
Other	601	[13,416]
Net changes in assets and liabilities:		
Trade accounts receivable	[141,929]	[73,906]
Other accounts receivable	[687]	40,685
Inventories	[62,587]	1,993
Prepaid expenses	1,474	149
Trade accounts payable	[30,513]	[62,703]
Other accounts payable	12,475	10,945
Net cash [applied to] provided by operating activities	**[120,387]**	**1,306**

The accompanying notes are part of the financial statements +

+ Notes to the Financial Statements

december 31, 2005 and 2004 [Notes 1, 2 y 3]

[1] Economic Activity

Ferreyros S.A.A. [hereinafter the Company] was incorporated in the city of Lima in September 1922 under the name Enrique Ferreyros y Cia. Sociedad en Comandita + Subsequently, in June 1998 after several changes of its trade name, the Company amended its corporate by-laws in order to comply with the General Law of Companies, under which its new legal name is Ferreyros Sociedad Anonima Abierta [Ferreyros S.A.A.] + Its legal address is Avenida Industrial 675, Lima and it has branch offices in Piura, Chiclayo, Trujillo, Chimbote, Ica, Arequipa, Cusco, Huancayo, Huaraz and Cajamarca + The Company's main activity is the importation and sale of machinery, equipment and spare parts, rental of machinery and equipment and providing technical workshop services +

The personnel used by the Company to perform its activities, at the beginning and the end of the year 2005, comprised 34 executives, 584 employees and 641 workers; and 35 executives, 594 employees and 503 workers, respectively +

The financial statements as of December 31, 2004 were approved by the Board of Directors on March 22, 2005 + The financial statements for the year ended December 31, 2005 have been approved by the Company's Management and are subject to the approval of the General Stockholders' Meeting to be held within the terms established by law + Management considers that the 2005 financial statements will be approved without changes +

[2] Accounting principles and policies

The most significant accounting policies used for the recording of operations and in the preparation of the financial statements are detailed below + These accounting principles and policies have been consistently applied for all years presented, unless otherwise noted +

a] Basis of preparation

The Company's financial statements are prepared in accordance with accounting principles generally accepted in Peru + The accounting principles generally accepted in Peru comprise mainly the International Financial Reporting Standards [IFRS], made official through resolutions of Consejo Normativo de Contabilidad + IFRS comprise the International Financial Reporting Standards (IFRS), the International Accounting Standards [IAS] and the pronouncements of the Interpretation Committees [SIC and IFRIC] + To the date of the financial statements the Consejo Normativo de Contabilidad has approved IAS 1 to 41 and SIC interpretations 1 to 33 +

The 2005 financial statements have been prepared on the basis of the historical cost principle + Up to December 31, 2004, the financial statements were restated to reflect the effect of the variation in the purchasing power of the Peruvian currency under the methodology approved by the Consejo Normativo de Contabilidad + This methodology requires updating non-monetary items of financial statements from the origin date, by applying the wholesale price index + The balances restated for inflation as of December 31, 2004 have been considered as the opening historic balances as of January 1, 2005 + The effect of this accounting change has caused that as of December 31, 2005, the total assets and net stockholders' equity are lower by approximately S/.11.7 million, S/.10.1 million and the net income of 2005 be lower by approximately S/.1.6 million +

The variation in the purchasing power of the Peruvian currency for 2005 and 2004, based on the Wholesale Price Index, according to official statistics, has been 3.6% and 4.9%, respectively +

The preparation of financial statements under accounting principles requires the use of certain critical estimates + It also requires Management's judgment in applying the Company's accounting policies +

Consejo Normativo de Contabilidad, by means of Resolution No.034-2005-EF/93.01 dated March 2, 2005 made official the mandatory application of the following IAS and IFRS applicable to the Company as from January 1, 2006:

+ IAS 1	[revised in 2003]	Presentation of Financial Statements
+ IAS 2	[revised in 2003]	Inventories
+ IAS 8	[revised in 2003]	Accounting Policies, Changes in Accounting Estimates and Errors
+ IAS 10	[revised in 2003]	Events subsequent to the Balance Sheet Date
+ IAS 16	[revised in 2003]	Property, plant and equipment
+ IAS 17	[revised in 2003]	Leases
+ IAS 21	[revised in 2003]	The effects of changes in foreign exchange rates
+ IAS 24	[revised in 2003]	Related party disclosure
+ IAS 27	[revised in 2003]	Consolidated and separate financial statements
+ IAS 28	[revised in 2003]	Investments in associates
+ IAS 32	[revised in 2003]	Financial instruments: Disclosure and Presentation
+ IAS 33	[revised in 2003]	Earnings per share
+ IAS 36	[issued in 2004]	Impairment of assets
+ IAS 38	[issued in 2004]	Intangible assets
+ IAS 39	[revised in 2003]	Financial instruments: Recognition and Measurement
+ IFRS 1	[issued in 2004]	First-time adoption of International Financial Reporting Standards
+ IFRS 2	[issued in 2004]	Share-based payments
+ IFRS 3	[issued in 2004]	Business combinations
+ IFRS 4	[issued in 2004]	Insurance contracts
+ IFRS 5	[issued in 2004]	Non-current assets Held for Sale and Discontinued Operations

With respect to IAS 21 and 27, revised in 2003, considering that more extensive research is required of the technical criteria to be used by the companies to support and establish their functional currency and considering the importance placed by legal regulations currently in force in Peru on the separate financial statements, Consejo Normativo de Contabilidad, through resolutions No.038-2005-EF/93.01 dated December 28, 2005 and published on January 3, 2006, resolved to suspend the effective date of IAS 21, revised in 2003 until December 31, 2006, and re-establish for the same period the version of IAS 21, formerly in force, as well as SIC 19 and 30, except for the alternative treatment stated in paragraphs 20 through 22 of such a standard + This resolution does not prohibit the voluntary operating application of IAS 21 revised in 2003, under the terms stated in article 3 of resolution No.034-2005-EF/93.01 + In addition, the application of the equity method is maintained in Peru for the preparation of separate financial statements and for the valuation of investments in subsidiaries and associates +

Management estimates that the adoption of these standards will not result in major changes in its accounting policies, except for available-for-sale investments, the unrealized profit or loss on which will be recognized in an equity account +

b] Use of accounting estimates

The preparation of the financial statements requires Company's management to make certain estimates and assumptions that affect the reported balances of assets and liabilities, disclosure of contingencies, and the recognition of revenues and expenses + If these estimates and assumptions, which are based on management's best judgment at the date of the financial statements, change as a result of changes in their underlying premises, the related balances of the financial statements are corrected in the period in which the estimates and assumptions change + The significant estimates in the financial statements are the provision for doubtful accounts, provision for impairment of inventories, provision for fluctuation of investments in securities, depreciation of fixed assets, amortization of other assets and the determination of income tax and workers' profit sharing [current and deferred] +

c] Translation of foreign currency

+ Functional and Presentation Currency:

The items included in the Company's financial statements are expressed in the currency of the primary economic environment in which the entity operates [measurement currency] + The financial statements are presented in new Peruvian soles, which is the Company's functional and presentation currency +

+ Transactions and balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions +

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement +

d] Financial instruments

Financial instruments are defined as any contract that gives rise simultaneously to a financial asset in an enterprise and a financial liability or equity instrument of another enterprise + The Company's financial instruments include primary instruments, such as accounts receivable, accounts payable and borrowing +

The Company classifies its financial instruments as loans and accounts receivable and available for sale financial assets. Management classifies its financial instruments at the date of initial recognition and assesses this classification at the date of the year closing +

i] Loans and accounts receivable

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market + They arise when the Company provides cash, goods or services directly to a debtor with no intention to trade the account receivable + They are included in current assets, except for maturities greater than 12 months after the balance sheet date + These are classified as non-current assets + Loans and receivables are classified as 'trade and other receivables' in the balance sheet [Note 2-f] +

ii] Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are designated in this category + They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date + These investments are initially recognized at acquisition cost and they are subsequently recognized at fair value + The fair values of quoted investments are based on current bid prices + Gains or losses are recorded in the income statement of the period when they arise + Dividends received are recognized in results of the related period +

Regular purchases and sales of investments are recognized on the trade-date, the date on which the Company commits to purchase or sell the asset + Investments are initially recognized at fair value plus transaction costs + These investments are derecognized when the rights to receive cash flows from the investment have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership +

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired +

The substance of a financial instrument, rather than its legal form, governs its classification on the Company's balance sheet + Interest, dividends, the profit and loss from a financial instrument classified as a liability are recorded as expenses or income in the statement of profit and loss + Payments to holders of financial instruments recorded as equity are recognized directly to equity + Offsetting of a financial asset and a financial liability is required when there is a legal right to off-set and Management has the intention to settle on a net basis, or to realize the asset and settle the liability simultaneously +

Management estimates the carrying amounts of the Company's financial instruments [current assets and liabilities, loans and long-term debt] as of December 31, 2005 and 2004 does not differ significantly from their fair values; accordingly, the disclosure of such information is not relevant for an adequate interpretation of the Company's financial position at those dates + Accounting policies related to the recognition and valuation of these items are disclosed in this Note +

e] Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank demand deposits and checking accounts +

f] Trade accounts receivable and other accounts receivable

Trade receivables are recognized at fair value, less provision for impairment + A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables + The amount of the provision is recognized in the income statement +

g] Securitizations transactions

The Company carries out operations of securitization through which invoices and notes receivable are transferred to securitization trusts which are managed by a local securitization company + The accounts receivable transfer is carried out by applying a discount factor for invoices and the present value for notes receivable + At December 31, 2005 and 2004 the Company has recognized expenses from the transfer of invoices with a discount of S/.0.5 million and S/.2.2 million, respectively, which have been included in the account Financial expenses in the statement income +

h] Inventories

Inventories are stated at the lower of cost or replacement value, on the basis of the specific identification method, except for spare parts which are recorded by using the average method + The cost of inventories excludes financing costs and differences on exchange + In-transit inventories are recognized at cost under the specific identification method + The net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses +

i] Investments in securities

The Company records its investments in affiliates and associates under the equity method, through which the results obtained by these companies are recognized in the Company's financial statements with credit or debit to the carrying amount of the investment; cash dividends received are credited to the investment value +

Investments in securitization trusts are stated under the equity method + Consequently, the Company recognizes in its financial statements the results of the operations of the securitization trusts +

j] Property, plant and equipment and depreciation

Land and buildings comprise mainly factories, retail outlets and offices + Land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings + Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset + All other property, plant and equipment are stated at historical cost less depreciation + Historical cost includes expenditure that is directly attributable to the acquisition of the items +

Subsequent costs attributable to goods increasing their original capacity are capitalized; all other costs are recognized in results +

Land is not depreciated + Depreciation of other assets is calculated consistently under the straight-line method to allocate their cost or revalued amount, less the residual value, over their estimated useful life, as follows:

	Years
Buildings and other constructions	33
Installations	10
Machinery and equipment	5 and 10
Machinery and equipment, rental fleet	[*]
Vehicles	5
Vehicles, rental fleet	[*]
Furniture and fixtures	4 and 10

[*] By the method of machines used - hours +

Residual values and useful lives of assets are reviewed and adjusted, if appropriate, at each balance sheet date +

The carrying amount of an asset is written off immediately to its recoverable amount if the carrying amount exceeds its estimated recoverable amount +

Gains and losses on disposals are determined by comparing proceeds with carrying amounts + These are included in the statement of income +

k] Rental of machinery, equipment and vehicles

Machinery, equipment and vehicles for rent through operating lease are recorded in the account Property, plant and equipment, calculating their respective depreciation under the machine used / hour method + When rental contracts expire, these assets are transferred to the account Inventories for their technical servicing and for their subsequent sale or rental; in the latter case, they are transferred to the account Property, plant and equipment + The rental income is recognized monthly under the machine used / hour method over the period of the lease +

l] Lease contracts

Machinery and equipment lease contracts are recorded under the financial method, recording the amount of the lease as an asset and an obligation, and charging to results the related financial expenses and depreciation of the assets in the period in which they are accrued + Depreciation of these assets is calculated under the machine used / hour method +

m] Intangibles

Costs that are directly associated with the production of computer software that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets and are shown in the item Other assets in the balance sheet + These costs are amortized under the straight-line method over the estimated useful life of 4 years +

n] Long-term debt and bank loans

Long-term debt and bank loans are initially recognized at fair value, net of transaction costs incurred, but subsequently recognized at amortized cost + Any difference between the proceeds [net of transaction costs] and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method +

o] Income tax

The current income tax is determined and recorded under tax laws applicable to the Company +

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements +

Deferred income tax is determined using tax rates that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled + Major temporary differences identified are summarized in Note 11 +

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized +

p] Workers' profit sharing

The Company recognizes a liability and an expense for workers' profit sharing determined on the basis of 8% of the taxable income as established under tax regulations currently in force +

q] Provisions

The provisions for lawsuits are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount involved can be made + Recognition of provisions for future losses is not allowed +

In the event of several similar obligations, the probability that an outflow of resources will be needed to settle the obligation is determined by considering the obligation as a whole + A provision is recognized even when the probability is very low that an outflow of resources will be needed to settle any specific item included in the same class of obligations +

r] Dividend distribution

Dividends distribution to the Company's shareholders is recognized as a liability in its financial statements in the period in which the dividends are approved by the Company's shareholders +

s] Contingencies

Contingent liabilities are not recognized in the financial statements and are included in notes to the financial statements, unless their occurrence is considered remote + Contingent assets are not recognized in the financial statements and are disclosed only if their realization is considered probable +

t] Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net income for the year by the weighted-average number of the shares outstanding at the balance sheet date + Shares that are to be issued or annulled for capital stock restatement of the financial statements for inflation involves a stock split, and therefore, when calculating the average number of shares, they are considered to have been always the same, outstanding or annulled, respectively +

As of December 31, 2005 and 2004, the Company does not have financial instruments with dilutive effect; accordingly, the basic and diluted earnings per share are the same +

u] Recognition of revenues from sales

Revenues comprise the fair value of revenues from sales of services, net of sales taxes, rebates and discounts + Revenues are recognized in results as follows:

+ The revenues from sales of machinery, engines, motor engines and spare parts are recognized when the risks and rewards inherent to the ownership of the assets have been transferred to the buyer + The revenues from servicing are recognized when the services are rendered

+ Revenues from maintenance and repair and lease of machinery and equipment are recognized in the period when the services are rendered

Other income is recognized as follows:

+ Revenues from rentals and financing for sales on credit are recognized on the accrual basis
+ Revenues from commissions on direct orders: when the meets the order
+ Income from interest, based on the effective interest method
+ Dividend income, when the Company's right to collection is established

v] Financial risk management

The Company's activities expose it to a variety of financial risks, the potential adverse effects of which are permanently evaluated by the Company's Board of Directors and Management so as to minimize them + The financial risks that the Company is exposed to are:

Foreign exchange risk: All sales and purchases and operational expenses are mainly made in United States dollars, thus reducing the risk of being affected by variations of the exchange rate against the New Peruvian sol +

Interest rate risk: Income and operational cash flows of the Company are substantially independent of changes in market interest rates + Additionally, management obtains financing at floating and fixed interest rates, which are agreed under terms and conditions prevailing in the market +

Credit risk: The Company does not have significant risks of credit concentration, having established policies to ensure that sales of products and services are made to customers with an appropriate credit history + Additionally, the Company requires guarantees on products sold and, when applicable, additional guarantees +

Liquidity risk: Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities + The Company aims at maintaining flexibility in funding by keeping committed credit lines available, because of its policy of diversifying its sources of financing +

[3] Balances in foreign currency

Balances in foreign currency as of December 31 are summarized as follows:

	2005	2004
	US$000	US$000
Assets		
Cash and banks	2,418	6,437
Trade accounts receivable	74,281	38,789
Other accounts receivable	3,689	17,527
	80,388	**62,753**
Liabilities		
Overdrafts and bank loans	17,851	5,955
Trade accounts payable	30,093	40,218
Other accounts payable	6,653	5,678
Long-term debt	84,825	77,351
	139,422	**129,202**
Net liability	**59,034**	**66,449**

As of December 31, 2005 foreign currency balances have been substantially stated at the exchange rates of S/.3.429 and S/.3.431 per US$1 for assets and liabilities, respectively [as of December 31, 2004, S/.3.28 and S/.3.283 per US$1 for assets and liabilities, respectively] +

As of December 31, 2005 and 2004, the Company recorded exchange losses amounting to S/.9.8 million [exchange gains of S/.12 million in 2004, which is included in the Results for exposure to inflation in the statement of income] +

[4] Cash and Banks

As of December 31 this item comprises:

	2005	2004
	S/.000	S/.000
Petty cash	874	1,578
Checking accounts	10,595	10,327
Time deposits	-	12,136
	11,469	**24,041**

Time deposits in foreign currency are of current maturity and bear interest at average market rates +

[5] Trade accounts receivable

As of December 31 this item comprises:

	2005		2004	
	Current	Long-term	Current	Long-term
	S/.000	S/.000	S/.000	S/.000
Invoices and notes receivable	266,198	38,221	165,034	31,647
Deferred interest	[9,757]	[3,433]	[6,892]	[2,982]
Provision for doubtful accounts	[29,595]	-	[64,971]	-
	226,846	**34,788**	**93,171**	**28,665**

Trade accounts receivables are guaranteed with the inventories sold and, in some cases depending on the transactions' importance, additional guarantees are required + These accounts receivable do not bear interest, except for the notes receivable that bear an annual interest rate and a collection commission of between 14% and 16% +

As of December 31, 2005, trade accounts receivable for US$4.1 million and notes in collection in a local bank for US$523,000 are used as a security of promissory notes granted by Caterpillar Financial Services [Note 14] +

The annual movement of the provision for doubtful accounts was the following:

	2005	2004
	S/.000	S/.000
Opening balance	64,971	63,191
Additions of the year	6,641	14,098
Reversals of annulled sales	[608]	[185]
Reversal of portfolio transfer	[1,551]	[1,259]
Write-offs	[42,589]	[4,034]
Result of the adjustment for the effect of inflation	2,731	[6,840]
Final balance	**29,595**	**64,971**

The aging detail of trade accounts receivable is the following:

	2005	2004
	S/.000	S/.000
Current	264,468	122,393
Past due up to 30 days	5,164	641
Past due from 31 to 90 days	3,407	4,886
Past due from 91 to 180 days	1,597	1,451
Past due for over 181 days	29,783	67,310
	304,419	**196,681**

Trade accounts receivable over 180 days past due as of December 31, 2005 and 2004, have a provision for doubtful accounts amounting to S/.30.0 million and S/.65.0 million, respectively +

[6] Transactions with affiliates

The movement of the accounts receivable and payable with affiliates for the year 2005 is the following:

	Opening balance	Additions	Deductions	Final balance
	S/.000	S/.000	S/.000	S/.000
Receivable				
Trade:				
Orvisa S.A.	7,282	14,891	[17,625]	4,548
Unimaq S.A.	4,650	4,444	[7,430]	1,664
Fiansa S.A.	1,138	876	[1,902]	112
Motorindustria S.A.	178	2,325	[1,948]	555
Domingo Rodas S.A.	27	543	[417]	153
Depósitos Efe S.A.	88	539	[616]	11
	13,363	**23,618**	**[29,938]**	**7,043**
Other:				
Unimaq S.A.	658	5,821	[4,133]	2,346
Fiansa S.A.	1,172	1,736	[1,239]	1,669
Depósitos Efe S.A.	373	65	[438]	-
Domingo Rodas S.A.	341	24	-	365
Orvisa S.A.	-	9,736	[7,120]	2,616
	2,544	**17,382**	**[12,930]**	**6,996**
Payable				
Trade:				
Motorindustria S.A.	2,639	28,443	[24,120]	6,962
Orvisa S.A.	-	4,345	[3,969]	376
Fiansa S.A.	323	9,767	[9,952]	138
Unimaq S.A.	294	4,730	[4,918]	106
Depósitos Efe S.A.	90	1,357	[1,444]	3
	3,346	**48,642**	**[44,403]**	**7,585**
Other:				
Motorindustria S.A.	-	3,675	-	3,675
Orvisa S.A.	**1,191**	**-**	**[1,191]**	**-**
	1,191	**3,675**	**[1,191]**	**3,675**

Trade accounts receivable and payable arise from the sales and/or services rendered and received by the Company + They are considered of current maturity, do not bear interest and have no specific guarantees +

Other accounts receivable and payable comprise mainly short-term loans intended for working capital; they are considered of current maturity, do not bear interest and have no specific guarantees +

Main transactions with affiliates are summarized as follows:

	2005	2004
	S/.000	S/.000
Sales of goods:		
Orvisa S.A.	13,789	11,225
Unimaq S.A.	3,005	2,558
Motorindustria S.A.	1,138	477
Domingo Rodas S.A.	354	-
Fiansa S.A.	-	162
	18,286	**14,422**
Sales of services:		
Fiansa S.A.	479	62
Orvisa S.A.	316	44
Motorindustria S.A.	282	539
Unimaq S.A.	261	137
Domingo Rodas S.A.	18	-
	1,356	**782**
Purchase of goods:		
Fiansa S.A.	7,202	3,173
Unimaq S.A.	3,484	2,221
Orvisa S.A.	3,411	1,307
	14,097	**6,701**
Purchase of services:		
Motorindustria S.A	28,443	26,313
Depósitos Efe S.A.	1,357	664
Fiansa S.A.	998	-
Unimaq S.A.	500	-
Orvisa S.A.	215	-
	31,513	**26,977**

[7] Other accounts receivable

At December 31 this account comprises:

	2005	2004
	S/.000	S/.000
Securitization trust [Note 26]	-	52,856
SVC Inversiones S.A.C.	-	5,683
Obras de Ingeniería S.A.	1,983	2,298
Personnel	2,327	2,806
CAT Américas	2,497	-
Other	2,879	2,387
	9,686	**66,030**
Provision for doubtful accounts	**[2,730]**	**[7,904]**
	6,956	**58,126**

The annual movement of the provision for doubtful accounts was the following:

	2005	2004
	S/.000	S/.000
Opening balance	7,904	5,529
Additions of the year	408	2,499
Write-offs	[5,683]	-
Result for exposure to inflation and difference on exchange	101	[124]
Final balance	**2,730**	**7,904**

[8] Inventories

At December 31 this account comprises:

	2005	2004
	S/.000	S/.000
Machinery, engines and vehicles	140,703	94,839
Spare parts	90,815	67,040
Repair shop services in process	19,280	23,730
In transit inventories	21,575	32,427
	272,373	**218,036**
Provision for impairment of inventories	**[19,118]**	**[13,948]**
	253,255	**204,088**

The annual movement of the provision for impairment of inventories was the following:

	2005	2004
	S/.000	S/.000
Opening balance	13,948	13,697
Additions of the year	11,794	9,854
Reversals of sales	[6,624]	[8,776]
Write-offs	-	827
Final balance	**19,118**	**13,948**

[9] Investments in securities

As of December 31, 2005 and 2004 this item comprises:

	Quantity 2005	2004	Interest in capital	Unit nominal	Carrying amounts 2005	2004
			%		S/.000	S/.000
Common shares in subsidiaries						
Orvisa S.A.	6,032,455	5,750,673	99.00	S/.1	22,196	22,586
Motorindustria S.A.	12,359,647	12,292,341	99.99	S/.1	24,105	20,488
Domingo Rodas S.A.	12,485,266	9,365,206	99.89	S/.1	13,680	13,556
Unimaq S.A.	6,005,311	6,005,311	99.99	S/.1	10,606	9,012
Fiansa S.A. [common shares]	5,080,010	5,080,010	99.00	S/.1	4,086	5,588
Fiansa S.A. [investment shares]	861,692	861,692	93.50	S/.1	808	1,105
Depósitos Efe S.A.	867,016	843,082	99.86	S/.1	2,117	1,647
					77,598	**73,982**
Common shares in other companies						
Quoted:						
La Positiva Seguros y Reaseguros S.A.	11,247,007	11,247,007	13.79	S/.1	13,607	12,837
Not quoted:						
Other					1,473	1,484
					15,080	**14,321**
Securitization trust						
Investment					-	985
Equity interest					306	362
					306	**1,347**
Other investments						
Securitization bonds - Cosapi S.A.					2,363	3,948
					95,347	**93,598**

At December 31, 2005 and 2004, the balance of investments in subsidiaries and associates has been determined by the equity method on the basis of their financial statements, recognizing the Company's share in the results of these subsidiaries of those years amounting to S/.10.9 million and S/.10.7 million, respectively, which are included in the item Other, net in the statement of income [Note 23] +

In 2005, the Company received dividends from its affiliate Orvisa S.A. of S/.6.4 million and S/.1.5 are still pending collection + Also, at the General Stockholders' Meeting dated March 22, 2005 the spin-off was approved of part of the equity of Motorindustria in favor of the Company, this spin-off will be made effective starting March 1, 2006 +

In November 2004, the Company made a capital contribution to its subsidiary Depositos Efe S.A., increasing its investment by S/.0.3 million and acquired the investments in Domingo Rodas S.A. owned by its subsidiaries Depositos Efe S.A. and Orvisa S.A. for S/.0.2 million and S/.3.1 million, respectively. These acquisitions were paid by offsetting account receivables from those subsidiaries [Note 27] +

Securitization bonds - Cosapi S.A., comprise an exchange of a liability for securitization bonds issued by a securitization company, with a monthly redemption until October 2006 +

[10] Property, plant and equipment

The movement on property, plant and equipment accounts and its related accumulated depreciation for the year ended December 31, 2005 is as follows:

	Opening balances	Additions to cost and/or applied to results	Deductions	Transfers	Other changes	Final balances
	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
Cost						
Land	49,827	34	[514]	-	5,547	54,894
Buildings and other constructions	73,596	456	[155]	7,637	-	81,534
Installations	10,308	382	-	[6,754]	-	3,936
Machinery and equipment	112,663	1,386	[10,913]	[14,941]	[29]	88,166
Machinery and equipment, rental fleet	85,614	19,363	[1,511]	[29,336]	-	74,130
Vehicles	4,732	-	[1,132]	119	-	3,719
Furniture and fixtures	27,972	1,820	[109]	[105]	-	29,578
Work in progress	2,262	482	-	[882]	-	1,862
	366,974	**23,923**	**[14,334]**	**[44,262]**	**5,518**	**337,819**
Accumulated depreciation						
Buildings and other constructions	20,898	2,421	[26]	5,042	-	28,335
Installations	7,439	251	-	[5,041]	-	2,649
Machinery and equipment	75,059	12,718	[4,544]	[16,523]	-	66,710
Machinery and equipment, rental fleet	21,166	13,714]	[101]	[14,050]	84	20,813
Vehicles	4,347	105	[892]	[121]	-	3,439
Furniture and fixtures	22,060	2,128	[60]	-	[89]	24,039
	150,969	**31,337**	**[5,623]**	**[30,693]**	**[5]**	**145,985**
Provision for impairment of property	**-**	**[7,954]**	**-**	**-**	**-**	**[7,954]**
Net cost	**216,005**					**183,880**

As of December 31, 2005, the Company had a professional valuer perform the appraisal of land by applying the direct evaluation method as allowed by the General Regulations for Appraisals, which resulted in a revaluation of its assets of S/.5.5 million, net of the tax effect of S/.1.9 million + Also, the Company recognized a debit to results of S/.7.9 million for the impairment of a property resulting from the comparison with the appraisal value obtained by the independent valuer [Note 23] +

Certain machinery and equipment has been pledged in guarantee of long-term debts with Caterpillar Financial Services as of December 31, 2005 [Note 14] for US$3.7 million + Additionally, the Company has constituted mortgages on its property for US$11.7 million as a guarantee of promissory notes amounting to US$11.5 million, granted by such institution +

As of December 31, 2005 the item machinery and equipment rental fleet includes cost and depreciation amounting to S/.4.6 million and S/.0.8 million, respectively [S/.8.4 million and S/.1.3 million as of December 31, 2004, respectively] related to financial lease agreements which are settled by utilizing a purchase option of prior years +

[11] Deferred income tax and workers' profit sharing

At December 31, 2005 and 2004 the balance of this account comprises:

	2005	2004
	S/.000	S/.000
Income tax	8,864	5,634
Workers' profit sharing	2,343	1,506
Balance at December 31	**11,207**	**7,140**

The temporary differences giving rise to deferred income tax and workers' profit sharing are as follows:

	Accumulated as of January 1 2005	Additions and reversals in 2005	Accumulated as of December, 31 2005
	S/.000	S/.000	S/.000
Provision for impairment of inventories	[5,497]	[4,958]	[10,455]
Differences on depreciation rates	[4,131]	1,774	[2,357]
Other provisions	[3,256]	[4,372]	[7,628]
Result for exposure to inflation of inventories, land and investments	[3,782]	1,690	[2,092]
Interest in securitization trust	142	[142]	-
Provision for vacations	[1,657]	[103]	[1,760]
Intangibles with limited life	180	[43]	137
Earnings from deferred sales, net,	3,040	662	3,702
Financial lease transactions	1,714	[530]	1,184
	[13,247]	**[6,022]**	**[19,269]**
Land revaluation	**6,107**	**1,955**	**8,062**
	[7,140]	**[4,067]**	**[11,207]**

	2005	2004
	S/.000	S/.000
Deferred income tax asset at end of year	11,207	7,140
Deferred income tax asset at beginning of year	[7,140]	[6,211]
	4,067	**929**
Credit to income of the year:		
Workers' profit sharing	1,096	279
Income tax	4,109	1,489
Charge to equity, net:	[1,955]	-
Adjustment	817	[839]
	4,067	**929**

The Company's Management considers, based on its forecasts, that the deferred income tax asset and workers' profit sharing will be recovered through the application of the income tax and workers' profit sharing to future taxable profit +

[12] Overdrafts and bank loans

This item comprises as of December 31:

	2005	2004
	S/.000	S/.000
Overdrafts and bank loans	**1,177**	**1,098**
Bank loans in foreign currency:		
Banco de Crédito del Perú	27,448	-
Citibank	19,900	-
Interbank	4,460	6,566
Banco Continental	9,607	-
Standard Chartered	-	12,516
	61,415	**19,082**
	62,592	**20,180**

Bank loans are credits obtained to finance working capital and imports + These balances are of current maturity, bear annual interest at fixed interest rates ranging from 3.9% to Libor plus 2.0% and have no specific guarantees +

[13] Trade accounts payable

This account comprises as of December 31:

	2005	2004
	S/.000	S/.000
Invoices	76,585	57,674
Notes	23,960	73,216
	100,545	**130,890**

At December 31, 2005, the balance mainly includes invoices and notes payable to Caterpillar Americas Co. for US$16.5 million and U$5.6 million, respectively [US$15.4 million and US$22.1 million, respectively as of December 31, 2004] bearing interest at annual rates ranging from 3.65% to 3.94%, plus a 0.785% commission +

[14] Long-term debt

At December 31, 2005 and 2004 this account comprises:

Name of creditor	Class of obligations	Maturity	Amount authorized/ used US$000	Outstanding balances Total 2005 US$000	2004 US$000	Total 2005 S/.000	2004 S/.000	Current 2005 S/.000	2004 S/.000	Non-current 2005 S/.000	2004 S/.000
Caterpillar Financial Services Notes at the annual interest rate of Libor plus 3.25% and annual interest rate of 7.0% secured with accounts receivable, property, machinery and equipment [Notes 5 y 10] +	Notes	Quarterly and semi-annual up to 2010	60,000/ [1] 12,434	12,434	27,461	42,662	90,156	8,293	16,930	34,369	73,226
Ferreyros bonds Bonds issued Fourth Issue Series B and C and First Program of corporate bonds Series A and B bearing annual interest from 4.5% to 6.3%, secured with the Company's equity. Also, third and fourth issue of the first program of corporate bonds Series A bearing annual interest rates of 6.1% and 5.8%, respectively +	Corporate bonds	Up to October 2010	65,000/ [3] 55,000	55,000	45,000	188,705	147,735	51,465	49,245	137,240	98,490
Local and foreign financial institutions Notes with local institutions at an annual interest rate of 6% and foreign institutions at an effective Libor rate plus 4.5%	Notes	Quarterly up to 2008	20,000/ 16,907	16,907	4,142	58,009	13,600	21,928	5,428	36,081	8,172
Caterpillar Brasil S.A. Notes payable at an annual interest rate of 4.625% to 6.25%, with a guarantee of a local bank.	Drafts	Quarterly up to 2005	5,000/ [2] 256	-	256	-	840	-	840	-	-
Agco do Brasil S.A. Notes payable at annual interest rates ranging from 4.56% to 6.375%, with guarantee of a local bank.	Drafts	Semi-annual up to 2005	5,000/ [2] 492	-	492	-	1,614	-	1,614	-	-
				84,341	**77,351**	**289,376**	**253,945**	**81,686**	**74,057**	**207,690**	**179,888**

[1] Relates to a joint line of credit +
[2] Relates to a joint line of guarantee of a local bank +
[3] Including US$50 million and US$15 million of the first program and fourth issue, respectively +

The payment time schedule of the total debt, net of interest, as of December 31, 2005 in United States dollars and in New Peruvian soles at that date, is as follows:

Years	US$000	S/.000
2006	23,808	81,684
2007	25,852	88,696
2008	24,688	84,703
2009	4,896	16,801
2010	5,097	17,492
	84,341	**289,376**

In 2005 Series A of the third and fourth issue has been placed in the market for a total of US$25 million + Under Resolution CONASEV No.028-2004-EF/94.11, dated March 16, 2004, the anticipated formalization and registration with the Peruvian Public Registry of the Securities Market was approved of the First Program of Corporate Bonds Ferreyros, allowing the issue of Corporate Bonds up to the maximum amount of US$50 million +

[15] Net stockholders' equity

a] Capital stock

As of December 31, 2005, the authorized, subscribed and paid-in capital amounts to S/.266,178,000, made formal under public deed and represented by 241,980,000 common shares with a nominal value of S/.1.10 each one, of which, 86.54% is owned by local investors and 13.46% by foreign investors +

At the General Stockholders' Meeting dated March 22, 2005 a capital stock increase of S/.26.4 million was approved, through the capitalization of the restatement of the capital stock, legal reserve, revaluation surplus and retained earnings +

At December 31, 2005 the Company's capital structure is the following:

Percentage of individual interest in capital	Number of shareholders	Percentage of interest
Hasta 1.00	730	16.28
De 1.01 al 5.00	10	29.78
De 5.01 al 10	4	30.42
De 10.01 al 100	2	23.52
	746	**100.00**

b] Revaluation surplus

The surplus comprises the difference between the carrying amounts of land with the assigned value from technical appraisals of an independent expert in 2005 and 1999 which can be capitalized and/or used to offset losses + At December 31, 2005 and 2004 portions of this balance was capitalized for S/.1,559,000 and S/.659,000, respectively +

c] Legal reserve

In accordance with the General Law of Companies, this reserve must be constituted by the transfer of 10% of net income of the year up to a maximum of 20% of the paid-in capital + In the absence of non-distributed earnings or non-restricted reserves, the legal reserve may be used to compensate losses that should be restored with future earnings + This reserve may be capitalized and its restoration is equally mandatory +

As of December 31, 2005, accumulated results include S/.3.0 million that should be transferred to legal reserve, prior approval of the General Stockholders' Meeting +

d] Retained earnings

In the General Stockholders' Meeting dated March 22, 2005, the distribution of cash dividends was approved for S/.12.0 million as well as the capitalization of retained earnings for S/.13.1 million + In 2004 the distribution of dividends of S/.9.3 million and capitalization of retained earnings of S/.9.6 million were approved +

Dividends on behalf of shareholders, other than domiciled legal entities, are subject to a 4.1% income tax, which should be withheld by the Company +

[16] Tax situation

a] The Company's Management considers that the taxable income under the general regime of income tax has been determined in accordance with tax laws currently in force by adding to and deducting from the result, shown in the financial statements, those items considered as taxable and non-taxable, respectively +

Taxable income has been determined as follows:

	2005	2004
	S/.000	S/.000
Income before workers' profit sharing and income tax	**48,840**	**43,697**
Plus [less] permanent items:		
Non-deductible expenses	14,042	10,796
Value of investments in affiliates	[10,860]	[12,537]
Plus [less] temporary differences:		
Deferred income of the year	[6,765]	[6,687]
Prior years' deferred income - application	4,886	2,328
Provision for impairment of assets	11,969	1,084
Difference in depreciation rates	[3,609]	[1,723]
Provision for vacations	284	2,291
Result for exposure to inflation of inventories, investments in securities and land	[4,828]	6,091
Financial lease operations	1,484	4,196
Provision for estimated expenses	10,672	[697]
Dividends received from the securitization trust during the year	418	2,345
Other items	1,105	[267]
Taxable income	67,638	50,917
Workers' profit sharing	[5,159]	[3,772]
Basis for income tax	**62,479**	**47,145**
Income tax	**18,744**	**14,144**

b] The expense [income] from income tax and workers' profit sharing shown in the income statement comprises:

	2005	2004
	S/.000	S/.000
Workers' profit sharing:		
Current	5,159	3,772
Deferred [Note 11]	[1,096]	[279]
	4,063	**3,493**
Income tax:		
Current	18,744	14,144
Deferred [Note 11]	[4,109]	[1,489]
	14,635	**12,655**

The income tax before workers' profit sharing and income tax is different from the theoretical amount that may have been obtained by applying the income tax rate to the results of the Company, as follows:

	2005	2004
	S/.000	S/.000
Profit before taxes	**48,840**	**43,697**
Income tax by applying the tax rate of 30%	14,652	13,109
Non-deductible expenses	4,212	3,239
Non-taxable income	[3,258]	[3,761]
Workers' profit sharing	[1,548]	[1,132]
Other	577	1,200
Income tax of the year	**14,635**	**12,655**

c] Peruvian tax authorities have the right to examine, and, if necessary, amend the income tax determined by the Company in the last four years, as from January 1 of the year after the date when the tax returns have been filed [years subject to examination] + Years 2000 and 2001 have been examined by the tax authorities; years 2002 through 2005, are subject to examination + Since differences may arise over the interpretation by the tax authorities of the regulations applied to the Company, it is presently not possible to estimate if any additional tax liabilities will arise as a result of any eventual examinations + Any additional tax, fines and interest, if arising, will be recognized in the results of the period when such differences are resolved + The Company's Management considers that no significant liabilities will arise as a result of these eventual tax examinations. +

d] As established under regulations in force up to fiscal 2001, for purposes of determining income tax and value added tax, transfer pricing among related and non-related parties should show adequate supporting documentation as well as information supporting the methods and valuation criteria used + Peruvian tax authorities are entitled to request such information from the taxpayer +

Under recent modifications to the Income Tax Law applicable as from fiscal period 2004, adequate supporting documentation will be required from related companies involved in local and international transactions as a result of which one of the parties becomes exempted from paying income tax, from companies that have signed legal stability agreements and from companies that have reported tax losses in the last six years + Additionally, such supporting documentation requirement will be enforced when as a result of inter-company transactions, a lower tax payment is determined in the country +

On December 31, 2005 an amendment to the regulations of the Peruvian Income Tax Law was enacted establishing new rules for the determination of inter-company transfer pricing + These amendments relating to formal requirements are applicable for periods beginning in or after 2006; accordingly, the transactions made in 2005 are not subject to the new formal requirements + The amended regulation establishes new criteria to determine the related status between two parties; it includes clear definitions regarding the scope of application of these rules, such as the fact that free-of-charge transactions are subject to transfer pricing rules + The new regulation also restricts significantly the likelihood to perform analysis on a global basis; therefore, the supporting documentation and methods will need to be based on segment information by each line of business, requiring taxpayers to produce segmented financial information to avoid tax penalties and sanctions +

e] As from January 1, 2005 the temporary tax on net assets has come into effect, the taxable income of which is determined on the basis of the value of the net assets adjusted for inflation at the closing of the prior year + The tax rate is 0.6% applicable to the amount of net assets exceeding S/.5 million +

The amount effectively paid may be used as a credit as follows:

+ Against payments in advance of the income tax under the General Regime for the tax periods from March to December of the taxable period for which the tax was paid, until the due date for payment of each payment in advance

+ Against the regularization payment of the income tax of the related period

A tax refund may be requested only in case the Company incurs in supported tax losses or a lower payment is determined of the income tax under the General Regime tax regulations currently in force +

[17] Contingencies and commitments

Contingencies

As of December 31, 2005, the Company has the following contingencies:

a] In December 2005, the Company's 2001 income tax and VAT were assessed by the tax authorities for a total of S/.16.6 million, including fines and interest + A claim has been filed with the tax authorities +

b] In April 2003, the Company's 2000 income tax and VAT were assessed for a total amount of S/.4.7 million, including fines and interest, against which the Company has filed a claim with the tax authorities +

c] As of December 31, 2005, the Company maintains under claim processes, lawsuits initiated by third parties for damages amounting to US$1.5 million +

The Company's Management, based on the opinion of its legal counsel, considers that such assessments and lawsuits are unfounded and the outcome would be favorable to the Company; consequently, no provision has been deemed necessary to be made +

Commitments

The Company has the following commitments as of December 31, 2005:

a] Guarantees amounting to US$11.5 million and US$7.3 million to secure credit transactions of affiliates and purchase transactions of third-parties, respectively +

b] Bank performance bonds in favor of financial institutions amounting to US$3.1 million to secure various transactions +

c] As of December 31, 2003, the Company sold its total interest in Matreq Ferreyros S.A. amounting to S/.36.4 million (US$10 million) + As part of this transaction the Company assured that Matreq Ferreyros S.A. would obtain a cumulative minimum gross profit of US$45 million in the first eight years from the transaction date + In the event this minimum profit was not reached, the Company would have to pay the purchaser from US$1 million to US$4 million in relation with the profits obtained at the end of the period established and without financial charge + In 2005, the Company made a charge of S/.1.6 million to the results of the period, since the afore-mentioned company did not obtain the profits expected +

[18] Cost of sales

Cost of sales for the years ending December 31 comprises:

	2005	2004
	S/.000	S/.000
Opening balance of inventories	185,609	209,688
Purchases of inventories	670,299	507,293
Labor and workshop expenses	70,844	61,482
Operational expenses of rental fleet	45,512	20,756
Other	21,411	35,040
Final balance of inventories	**[250,798]**	**[185,609]**
	742,877	**648,650**

[19] Administrative expenses

Administrative expenses for the years ending December 31 include the following items:

	2005	2004
	S/.000	S/.000
Employees' costs	35,861	32,975
Services rendered by third parties	17,141	15,316
Taxes	719	959
Other management expenses	3,307	4,499
Depreciation and amortization	4,103	5,643
Provisions of the period	1,985	1,164
	63,116	**60,556**

[20] Selling expenses

Selling expenses for the years ending December 31 comprise:

	2005	2004
	S/.000	S/.000
Employees' costs	35,774	32,556
Services rendered by third parties	18,455	17,302
Taxes	184	1,025
Sundry expenses	14,864	14,050
Depreciation	12,824	14,090
Provisions of the period	3,304	12,624
	85,405	**91,647**

[21] Financial Income

Financial income for the years ending December 31 comprises:

	2005	2004
	S/.000	S/.000
Interest from credit sales	9,331	7,949
Discounts for prompt payment	8,965	7,592
Interest in securitization trust	-	794
Interest on delinquent payment	3,936	1,603
Interest on bank deposits	695	165
Dividends received	-	1,009
Other financial income	569	574
	23,496	**19,686**

[22] Financial expenses

Financial expenses for the years ending December 31 comprise:

	2005	2004
	S/.000	S/.000
Interest on bank loans	11,334	9,784
Interest on Corporate bonds	10,448	8,178
Foreign suppliers' financial interest	4,144	4,655
Securitization of accounts receivable	-	2,188
Tax on financial transactions	2,898	2,598
Other financial expenses	1,903	608
	30,727	**28,011**

[23] Other, net

This account for the years ending December 31 comprises:

	2005	2004
	S/.000	S/.000
Interest in subsidiaries and associate	10,860	10,676
Income from contract resolution	1,548	3,270
Income from rental of properties	690	792
Provision for impairment of inventories	[11,794]	[9,854]
Provision for impairment of property	[7,954]	-
Penalties assumed	[4,265]	[179]
Provision for offsetting sale of investments	[1,599]	-
Application of credit balances of customers	-	1,073
Reversal of provision for discounts of customers	-	1,416
Other	1,054	967
	[11,460]	**8,161**

[24] Basic earnings per share

The basic earnings per share for each common share have been determined as follows:

		2005	2004
Attributable profit	S/.000	30,142	27,549
Weighted- average number of common shares outstanding		**241,980,000**	**241,980,000**
Basic earnings per share	S/.	**0.125**	**0.114**

No diluted earnings per share have been determined since no conditions arose to justify such a determination, that is, when there are potential dilutive shares [common or investment shares], mainly related to financial instrument contracts entitling holders to obtain common or investment shares +

[25] Segment information

Net sales and operating results per business segments are detailed as follows:

	2005 Heavy machinery, parts and services	Other business units	Total	2004 Heavy machinery, parts and services	Other business units	Total
	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
Total revenues for Sales and services	878,987	86,285	965,272	756,799	68,739	825,538
Operating profit	69,777	7,534	77,311	24,052	1,906	25,958
Major assets: Fixed assets	134,254	49,626	183,880	157,805	58,200	216,005
Inventories	228,062	25,193	253,255	184,844	19,244	204,088
Accounts receivable	227,335	41,342	268,677	109,073	26,126	135,199

[26] Securitization Transactions

At December 31, 2005 the Company has in force a Contract of Securitization Trusteeship with Citicorp Peru Sociedad Titulizadora S.A. [hereinafter Securization Company], Securitization Trust - Legislative Decree No. 861, Title XI, Ferreyros - PFF, 1998-01, through which the Company transferred to the Securitization Company accounts receivable to be integrated in the securitization trust which is used as a guarantee for the corporate bonds issued by way of a public offer [securitization bonds] +

Securitization Trust - Leg. Decree No.861, Title XI, Ferreyros - PFF, 1998-01 ["Securitization II"], created by Contract of Securitization Trusteeship of December 29, 1998, and its amendment of October 27, 1999, by which the Company transferred successively accounts receivable [invoices] to the Securitization Trust, managed by a Securitization Company + As of December 31, 2004 a balance was maintained of US$16.1 million which was cancelled in 2005 as a result of a decision of the Meeting of Holders of Partnership Interest Certificates ["Asamblea de Titulares de los Certificados de Participación al Patrimonio"] held on November 3, 2005 to liquidate such debt after paying the principal and interest on September 12, 2005 and the redemption and de-listing of the securitization bonds + The registration with the relevant public registry is presently pending +

The balance of accounts receivable from the Securitization Trust at December 31, 2005 and 2004 relates to the successive fiduciary transfers of accounts receivable, net of collections made + The balances at such date are summarized as follows:

	Patrimonio II	
	2005	2004
	US$M	US$M
Balance as of January 1	16.1	17.1
Transfers of the year	100.4	160.8
Transfers to pay obligations	4.1	-
Collections of the year	[120.6]	[161.8]
Balance as of December 31	-	16.1
Equivalent in millions of new Peruvian soles	-	52.9

In 2004 the Company recognized its interest in the results of the Securitization Trusts, on the basis of the financial statements crediting S/.0.8 million to the account Financial income of the statement of income +

[27] Non-cash transactions

The following are the main transactions performed in the years ended December 31 that are not incorporated in the statement of cash flows since they do not represent cash flows transactions:

	2005	2004
	S/.000	S/.000
Transfers of inventories to property, plant and equipment	33,140	36,935
Transfers of property, plant and equipment to inventories	46,709	50,312
Sale of the shares of Heavy Machinery Services Limited offset with accounts payable	-	998
Acquisition of the shares of Domingo Rodas S.A. offset with accounts receivable	-	3,302
Capital contribution through installations in its subsidiary Depositos EFE S.A.	-	335

Translation: María del Carmen Pizarro Sabogal - Lexitrans